

Message Text

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ACTION EA-09

INFO OCT-01 IO-11 ISO-00 AGR-10 SP-02 AID-05 EB-07 NSC-05

CIEP-02 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-01 INR-07 NSAE-00 USIA-15 XMB-04 OPIC-06

LAB-04 SIL-01 L-03 H-02 PA-02 PRS-01 /119 W

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R 160412Z JAN 76

FM AMEMBASSY WELLINGTON

TO SECSTATE WASHDC 735

INFO AMEMBASSY CANBERRA

US DEL MTN GENEVA 233

UNCLAS WELLINGTON 0158

E.O. 11652: N/A

TAGS: EFIN, ETRD, EGEN, NZ

SUBJECT: PRIME MINISTER FORECASTS CUTS IN GOVERNMENT SPENDING AND
IMPORTS

REF WELLINGTON 0153

1. ON JAN. 13 THE NEW PRIME MINISTER , ROB MULDOON, IN
WHAT WAS BILLED AS HIS FIRST MAJOR ECONOMIC SPEECH AS
PRIME MINISTER, PRETTY MUCH REVIEWED THEMES ADOPTED IN HIS
CAMPAIGN SPEECHES. BUT SOME POINTS DESERVE NOTE:

A. MUCH MORE ACTION WILL NEED TO BE TAKEN, IN
ADDITION TO THE PRICE INCREASES (REDUCED
SUBSIDIES) ANNOUNCED IN MID-DECEMBER
(WELLINGTON 75 3855 AND 75 3898), TO REDUCE THE
GOVERNMENT DEFICIT.

B. STEPS TO REDUCE THE DIFICIT WILL INCLUDE
RETURNING TO THE PRIVATE SECTOR SOME OF THE
CONSIDERABLE ACTIVITY TAKEN OVER BY THE LABOUR
GOVERNMENT IN THE PAST 3 YEARS.

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C. UNLESS PROFITABILITY IN THE PRIVATE SECTOR
CAN BE MAINTAINED OR RESTORED, PRIVATE
EMPLOYERS WILL HAVE NO OPTION BUT TO CUT
BACK FURTHER ON THEIR STAFFS.

D. NEW ZEALAND MUST FURTHER SHAVE ITS IMPORTS
(AS WELL AS INCREASE EXPORTS) TO REDUCE THE
OFFICIALLY ESTIMATED \$NZ650 MILLION TRADE
DEFICIT FOR THE JUNE YEAR. WHETHER DIRECT
RESTRAINT ON IMPORTS WILL BE NEEDED IS STILL
NOT CLEAR. A DETAILED ANALYSIS IS AT PRESENT
UNDERWAY ON DEVELOPMENTS IN IMPORTS. ANY
RESTRAINT WOULD BE SELECTIVE "AND IT NEED NOT
BE DIRECT, QUANTITATIVE CONTROL, WHICH IS
THE LEAST DESIRABLE FORM OF RESTRAINT" IN
MR. MULDOON'S MIND.

3. THE GOVERNMENT ACCEPTS THE INEVITABILITY OF
MAKING DECISIONS THAT WILL BE UNPOPULAR WITH
SOME GROUPS.

2. AS IF TO EMPHASIZE MULDOON'S POINT ON THE IMPORTANCE
OF REDUCING IMPORTS, THE GNZ STATISTICIAN RELEASED FIGURES ON
JANUARY 15 SHOWING A BIG JUMP IN PRIVATE IMPORT ORDERS PLACED
IN NOVEMBER. ACCORDING TO THE MOST RECENT SURVEY, ORDERS
PLACED IN NOVEMBER WERE \$NZ91.3 MILLION (VS. \$NZ53.3 MILLION
IN NOVEMBER 1974 BUT DOWN FROM THE \$NZ109.6 MILLION FOR
OCTOBER 1975). ORDERS PLACED FOR THE 3 MONTHS PERIOD TO
THE END OF NOVEMBER WERE \$NZ277.8 MILLION, UP FROM THE
\$NZ253.2 MILLION PLACED DURING THE PRECEDING 3 MONTHS
PERIOD.

3. PRIVATE PAYMENTS MADE TO FIRMS OVERSEAS IN NOVEMBER
ROSE TO \$NZ109 MILLION VZ. \$NZ107.6 MILLION IN OCTOBER AND
FOR THE THREE MONTHS THROUGH THE END OF NOVEMBER THEY ROSE
TO \$NZ321 MILLION (VZ. \$NZ244.5 MILLION FOR THE PRECEDING
3 MONTHS).

4. COMMENT: UNLESS THERE IS AN UNANTICIPATED
SIGNIFICANT JUMP IN EXPORT EARNINGS, BALANCING NEW ZEALAND'S
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IMPORTS AND EXPORTS WILL REQUIRE CONSIDERABLY MORE IMPORT
REDUCTIONS, REDUCTIONS WHICH THE ECONOMY CANNOT WELL STAND
WITHOUT A RISK TO ITS CURRENT INDUSTRIAL OUTPUT AND POSSIBLY
EVEN TO ITS AGRICULTURAL PRODUCTIVITY, ITS MAIN FOREIGN
EXCHANGE EARNER.
KILLGORE

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